

January 16, 2001

BULLETIN NO. 01-04

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Adjustments for Consumer Price Index Computation Error for 1999

1. Purpose. This bulletin requires agencies that administer Federal benefit programs to determine the extent to which the Consumer Price Index (CPI) computation error for 1999 results in a shortfall in payments to beneficiaries; to report on the nature of the shortfall; and to propose any necessary compensation payments by January 19, 2001.

2. Background. On September 27, 2000, the Bureau of Labor Statistics (BLS) announced that there was an error in the software used to calculate the “Rent of Primary Residence” and “Owners’ Equivalent Rent of Primary Residence” components of the CPI, which affected the “All Items CPIs” for the period January 1999 through August 2000. BLS reissued CPI data for the January 2000 to August 2000 period. However, it did not publish revisions to data for the January to December 1999 period. The corrected CPI series for calendar year 1999 is set forth in Attachment A.

The Consolidated Appropriations Act, 2001 (P.L. 106-554) requires the Director of OMB to determine, in coordination with each Federal agency that administers an applicable Federal benefit program, whether the CPI computation error for the period January 1999 through December 1999 results in a shortfall in payments to the beneficiaries under such programs. It also requires the Director to direct, by February 19, 2001, the agencies that administer these programs to compensate for the shortfall, to the extent practicable and feasible, by making a payment or payments that are targeted to the amount of the shortfall experienced by individual beneficiaries.

3. Required action. This bulletin applies to Federal programs that provide for regular or periodic payments or cash assistance paid directly to individual beneficiaries, and requires agencies to report to OMB on the adjustments needed to correct the CPI computation error for 1999. Attachment B lists some Federal benefit programs to which this bulletin applies.

Each agency that administers such benefit programs must determine whether the CPI computation error for 1999 has resulted or will result in a shortfall in payments to beneficiaries and report separately for each such program:

- The nature of the shortfall;
- The amount of the shortfall; and
- The compensation payment or payments proposed.

Agency plans for correcting the effect of the CPI error should follow the generic plan described below. Prepare the reports in the format of Attachment C and submit them to your OMB representative, as well as to each House of Congress, no later than January 19, 2001.

After OMB reviews the agency plans, the Director will direct agency heads to make compensation payments, as appropriate.

4. Generic plan for correcting the CPI error. In developing agency plans to compensate for the shortfall, you should use the following as a model, tailoring it to your own circumstances, where necessary. If use of this model is not practicable or feasible for your program, please advise your OMB representative.

Option A: Provide a single payment for each individual who received any benefit payment in calendar years 1999 and 2000 that was subject to a COLA based on the erroneous 1999 published CPI data. The single payment would be equal to the maximum amount by which an individual might be affected by the CPI error.

The single payment would be based on the level of the full benefit payable for each individual before the erroneous COLA was applied. For example, if the erroneous COLA was 0.1 percentage point lower than it would have been if the fully corrected 1999 CPI series had been used, and that resulted in an individual's benefit being up to \$1.00 a month less than it would otherwise have been, that individual would receive a lump-sum payment of \$12. A beneficiary who experienced a shortfall of more than \$1 up to \$2 per month would receive a payment of \$24, and so on.

Then, recompute the benefit level for all beneficiaries as of some administratively feasible time (for example, August 2001) using the fully correct CPI data. Benefits payable after the recomputation would reflect the recomputed benefit level. In addition, provide a single payment for each individual whose retroactive 2001 benefits were increased by the recomputation. The single payment should compensate the individual for the total shortfall experienced by that individual in 2001 up to the point of the recomputation. The single payment could be, for example, the product of the increase in monthly benefit and the number of eligibility months preceding the recalculation within calendar year 2001. For example, if the recalculation was for benefits payable in August 2001, the number of months for the single payment could be seven, January through July.

- Option B:      Recompute the benefit level for all beneficiaries as of a point in time (for example, August 2001) using the fully correct CPI data. Benefits payable after the recomputation would reflect the recomputed benefit level. In addition, provide a single payment for each individual whose benefits in any month of 1999, 2000, or 2001 were affected by the CPI error. The single payment should compensate the individual for the total shortfall experienced by that individual up to the point of the recomputation.
5. Contact.      Direct questions regarding this bulletin to your OMB representative.

/S/  
Jacob J. Lew  
Director

Attachments

**CPI DATA FOR JANUARY TO DECEMBER 1999**

|           | <u>CPI-W</u><br><u>Published</u> | <u>CPI-W</u><br><u>Correct</u> | <u>CPI-U</u><br><u>Published</u> | <u>CPI-U</u><br><u>Correct</u> |
|-----------|----------------------------------|--------------------------------|----------------------------------|--------------------------------|
| January   | 161.0                            | 161.0                          | 164.3                            | 164.3                          |
| February  | 161.1                            | 161.1                          | 164.5                            | 164.6                          |
| March     | 161.4                            | 161.5                          | 165.0                            | 165.1                          |
| April     | 162.7                            | 162.8                          | 166.2                            | 166.2                          |
| May       | 162.8                            | 162.8                          | 166.2                            | 166.2                          |
| June      | 162.8                            | 162.9                          | 166.2                            | 166.3                          |
| July      | 163.3                            | 163.3                          | 166.7                            | 166.7                          |
| August    | 163.8                            | 163.8                          | 167.1                            | 167.2                          |
| September | 164.7                            | 164.8                          | 167.9                            | 168.0                          |
| October   | 165.0                            | 165.1                          | 168.2                            | 168.3                          |
| November  | 165.1                            | 165.2                          | 168.3                            | 168.4                          |
| December  | 165.1                            | 165.2                          | 168.3                            | 168.4                          |

CPI-W is the Consumer Price Index (all-items, U.S. city average) for urban wage earners and clerical workers. CPI-U is the Consumer Price Index (all-items, U.S. city average) for all urban consumers. All data are not seasonally adjusted.

### **APPLICABLE FEDERAL BENEFIT PROGRAMS**

Any program of the Federal government that provides for regular or periodic payments or cash assistance paid directly to individual beneficiaries, as determined by OMB. Such programs include, but are not limited to:

- Old-age and survivors insurance program under title II of the Social Security Act;
- Disability insurance program under title II of the Social Security Act;
- Supplemental security income program under title XVI of the Social Security Act;
- Special benefits for World War II veterans;
- Civil Service retirement program;
- Federal employees retirement system;
- Foreign Service retirement program;
- Military retirement or survivor benefit programs subject to periodic adjustment under section 1401a of title 10, United States Code;
- Veterans disability compensation and dependency and indemnity compensation benefits the rates for which were increased by Public Law 106-118;
- Veterans educational assistance benefits the rates for which are subject to annual adjustment under section 3015(g) of title 38, United States Code;
- Special assistance for disabled veterans;
- Veterans benefits programs subject to periodic adjustment under section 5312 of title 38, United States Code; and
- Railroad retirement program.

**AGENCY REPORT ON THE IMPACT OF THE CPI COMPUTATION ERROR**

Agency: \_\_\_\_\_  
Date: \_\_\_\_\_

Prepared by: \_\_\_\_\_  
Phone: \_\_\_\_\_

**NAME OF FEDERAL  
BENEFIT PROGRAM:**

\_\_\_\_\_

**TREASURY ACCOUNT  
SYMBOL:**

\_\_\_\_\_

**DOES THE CPI ERROR  
RESULT IN A  
SHORTFALL?**

*Indicate by "yes" or "no" whether the CPI computation error for 1999 results in a shortfall in payments to beneficiaries (as compared to the payments that would have been made if the error had not occurred).*

**WHAT IS THE NATURE  
AND AMOUNT OF THE  
SHORTFALL?**

*Provide a complete description of the nature of the shortfall.*

*Include an estimate of the shortfall in the monthly or periodic payment per beneficiary, and the aggregate annual amount of the shortfall in FY 2000, 2001, and in subsequent years, if applicable.*

*Describe how the shortfall affects different categories of beneficiaries, including particularly beneficiaries as of the end of 1999; those who came on the benefit rolls in 2000; those who will become eligible in 2001; and those who will become eligible in subsequent years.*

**HOW DO YOU PROPOSE  
TO COMPENSATE FOR  
THE SHORTFALL?**

*Describe the payment or payments proposed by the agency to compensate for the shortfall. To the extent possible, your proposal for correcting the effect of the CPI error on benefits should be based on the model described in paragraph 4 of the bulletin. If this model is not practicable or feasible, please indicate why.*

*Include a proposed implementation date for the correction, and separate the payments into a retroactive payment to compensate for shortfalls to that point and an adjustment to regular benefit payments to restore these payments to the appropriate level, if necessary and appropriate.*